



## STATE BOARD OF EQUALIZATION STAFF LEGISLATIVE BILL ANALYSIS

Date Amended:	<b>05/20/04</b>	Bill No:	<b>AB 2207</b>
Tax:	<b>Local Sales and Use</b>	Author:	<b>Levine, et al</b>
Board Position:		Related Bills:	

### BILL SUMMARY

This bill would require state agencies that prepare and maintain data and statistics on cities, to make a separate breakdown of the San Fernando Valley.

### Summary of Amendments

Since the previous analysis, this bill was amended to provide that, if the use of a tax area code is required to comply with the provisions of this bill, an alternate method may be used to determine the separate breakdown of the San Fernando Valley.

### ANALYSIS

#### Current Law

Under current Government Code provisions, the Department of Finance, the State Department of Health Services, and the Department of Transportation are required to make a separate breakdown of the San Fernando Valley when preparing or maintaining any statistical analyses by city. Also, under current law, a state agency is not required to prepare or maintain any statistical information unless: (1) information is currently being prepared or maintained by city; or (2) a state agency voluntarily prepares or maintains information by city.

Under current Bradley-Burns Uniform Local Sales and Use Tax Law, the Board is required to collect and maintain local tax data by city, county, or city and county. Under current Transactions and Use Tax Law, the Board is required to collect and maintain local tax data by special taxing district. The Board, in its annual report, publishes the following statistical data: (1) State Sales and Use Tax Statistics by County; (2) Revenues Distributed to Cities and Counties From Local Sales and Use Taxes; (3) Revenues Distributed to Counties From County Transportation Tax; and (4) Revenues Distributed to Special Districts From Transactions and Use Tax.

The Board publishes a quarterly report titled "Taxable Sales in California." This report provides taxable sales data by: (1) Statewide Taxable Sales, By Type of Business; (2) Taxable Sales, By County; and (3) Taxable Sales, By City. The quarterly report is available on the Board's website at <http://www.boe.ca.gov/news/tsalescont03.htm>. The Board also prepares an annual publication titled, Taxable Sales in California (Sales & Use Tax). This publication contains taxable sales data by: (1) Statewide Taxable Sales, By Type of Business; (2) Taxable Sales, By County; (3) Taxable Sales in the 36 Largest Counties, By Type of Business; (4) Taxable Sales in the 22 Smallest Counties, By Type of Business; (5) Taxable Sales in the 272 Largest Cities, By Type of Business; and (6) Taxable Sales in All Cities Except the 272 Largest.

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### Proposed Law

This bill would add Section 11093 to the Government Code to provide that any state agency or department that develops and maintains data and statistics on the municipal level, would be required to make a separate breakdown of the San Fernando Valley. This bill also provides that if the use of a tax area code is required in order to comply with the provisions of this bill, an alternate method may be used to determine the separate breakdown of the San Fernando Valley. This bill would revise the existing boundary definition for the San Fernando Valley to include that portion of the City of Los Angeles, as described. This bill would also require the City of Los Angeles to provide all necessary data.

### COMMENTS

- 1. Sponsor and purpose.** This bill is sponsored by the Valley Industry and Commerce Association in an effort to promote the development of reliable statistical information for the San Fernando Valley area by expanding and enforcing existing data collection efforts. According to the author's office, San Fernando Valley is a "distinctive region of the City of Los Angeles with its own set of issues, challenges, and priorities." This information will permit more accurate planning for transportation, infrastructure, education, land use, and economic development for this "geographically distinct region."
- 2. The May 18, 2004 amendments** would provide that, if the use of a tax area code is required to comply with the provisions of this bill, an alternate method may be used to determine the separate breakdown of the San Fernando Valley. The May 18 amendments also added coauthors.
- 3. Amendments allow previous study method to be used.** In 2002, the Los Angeles County Local Area Formation Commission (LALAFCO) compiled data of local sales tax revenues attributable to the San Fernando Valley. The LALAFCO asked Board staff to review the data for accuracy. Specifically, the LALAFCO asked the Board to verify its estimate of local tax revenues on consolidated accounts where some of the business locations are located within the City of Los Angeles and others are located within the San Fernando Valley. Board staff reviewed the data and found that the estimate of local tax revenues on consolidated accounts was off by about 10 percent.

A consolidated account is a sales tax account with two or more selling locations (also called "sales outlets") for which a single tax return is filed. For sales outlets located within the same city, a single amount of local tax may be reported. However, the majority of consolidated accounts provide a breakdown of all sales outlets and the local tax attributable to those outlets.

While the City of Los Angeles is given information regarding the total local tax revenues attributable to sales outlets in the city, it is not provided with the detail by sales outlet. As such, the city cannot allocate the revenues specifically for the San Fernando Valley. Board staff was able to verify the data on most of the consolidated accounts in a minimal amount of time.

Therefore, if the City of Los Angeles were to compile data on the San Fernando Valley like LALAFCO did in 2002, with the Board performing a minimal amount of

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verification, such work could be done with insignificant costs (i.e., under \$10,000) to the Board. However, any other method that would require the Board to compile all the data would result in significant costs to the Board.

4. **Tax area code system would be costly.** As previously stated, the Board maintains two types of data by city: distributions of local sales and use tax revenues and taxable sales. This information is collected and maintained using a tax area code system. All registered permit holders are assigned a tax area code. A tax area code is a twelve (12) digit number that identifies the city and county in which the account is located, as well as any special districts or redevelopment areas. All newly incorporated cities are assigned a tax area code.

To implement the provisions of this bill using the Board's existing system, and not an alternative method that the bill now allows, the Board would have to treat the San Fernando Valley as a newly incorporated city. This would require creating a special tax area code for the San Fernando Valley. Once the tax area code is established, the Board would have to identify all accounts within the San Fernando Valley. The Board requires all newly incorporated cities to furnish maps and listings of street addresses. The Board would have to print out all 112,675 accounts currently within the City of Los Angeles and the surrounding areas. However, Board staff would have to review approximately 115,000 accounts to capture any accounts within the surrounding area of the City of Los Angeles that could be located within the San Fernando Valley. Using the street listings provided by the City of Los Angeles, Board staff would have to compare each business address from the Board's records to the city's street listing to identify those accounts within the San Fernando Valley.

Once the accounts have been identified, each account must be changed on the Board's registration system. This would require changing the tax area code, entering comments regarding the nature of the changes made, and other minor modifications. When changes have been made to the registration system, a listing of all accounts that were changed, as well as copies of maps and street listings, are forwarded to the appropriate district offices for distribution to personnel responsible for registration of new accounts.

Other tasks associated with setting up a newly incorporated city include: preparing written guidelines for audit and compliance staff; designing and printing a special mailer to be mailed with the tax returns to approximately 73,000 affected accounts, and revising various forms and publications.

If the Board were to make a separate breakdown of the San Fernando Valley using its tax area code system, because of the large volume of accounts, the costs would be substantial (i.e., over \$250,000 but under \$1 million). However, if the Board were allowed to use a more simplified method, with the City of Los Angeles providing all necessary data, the Board's costs would be reduced substantially.

**COST ESTIMATE**

This bill would require all state agencies that collect and maintain data on a municipal level to make a separate breakdown for the San Fernando Valley. However, where a tax area code is required to comply with the provisions of the bill, an alternate method may be used. This bill would require the City of Los Angeles to provide all necessary data.

As long as the Board may use an alternate method, with the City of Los Angeles providing all necessary data, the Board's costs to make a separate breakdown of the San Fernando Valley would be insignificant (i.e., under \$10,000).

**REVENUE ESTIMATE**

This bill would not impact the state's revenues.

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